This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – Q1 2024

CT (Lux) Global Smaller Companies

Scott Woods
Fund Manager
Since: 15/04/2019

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID for the Fund objective.

Fund Benchmark: MSCI World Small Cap Index

Inception Date: 03/03/2011

Fund Currency: EUR

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global small-cap stocks rose over the quarter, helped by an improving economic outlook.
- Gross of fees, the fund underperformed benchmark.
- We established new positions in Kokusai Electric, Comet and Riken Keiki.

Market Background

The MSCI World Small Cap index returned 6.3% in local currencies in the first quarter (Q1) of 2024. Sentiment was boosted by increasing optimism about major economies achieving a "soft landing" and strong corporate results. This helped risk assets overcome headwinds from geopolitical tensions in the Middle East and bond yields rising as expectations about the pace of monetary easing in 2024 were dialled back. In March, markets were lent additional impetus as central banks in the US, the UK and the eurozone appeared to turn more dovish, which rekindled hopes that interest-rate cuts would materialise midway through the year.

US stocks enjoyed a strong three months amid the ongoing resilience of the country's economy. Treasury yields rose in January and February when the Federal Reserve (Fed) pushed back against market expectations for interest-rate cuts in 2024 due to uneven progress on inflation. However, strong corporate results boosted equities. The rally paused briefly in early March, but sentiment strengthened again following the Fed's March meeting, amid relief that policymakers' projections pointed to three quarter-point interest cuts over the year.

European stocks rose as the eurozone's economic downturn appeared to have passed its nadir, with the composite purchasing managers' index moving higher over the period and finally escaping contractionary territory in March. Meanwhile, inflation edged closer to the European Central Bank's (ECB's) 2% target, leading markets to anticipate rate cuts by mid-2024. The ECB's own messaging then turned more dovish in March, helping European equities to a strong finish for the quarter. UK equities underperformed, hurt by their relatively limited exposure to technology stocks. Sentiment was also dampened as stubborn UK inflation and strong wage growth early in the year triggered concerns that the Bank of England (BoE) might delay rate cuts for longer than other central banks. On the economic front, the UK slipped into a technical recession in Q4 2023, but more recent indicators pointed to a rebound in Q1 2024. UK equities rallied in March following a larger-than-expected decline in inflation and signals from the BoE that it was getting closer to cutting rates. The pound weakened in this environment, providing a boost to the many overseas earners in the UK market.

Japanese stocks performed well throughout the quarter, aided by strong company earnings and corporate governance reforms. The Bank of Japan maintained a loose monetary policy relative to other key central banks, even as it raised rates for the first time in 17 years and ended its yield curve control in March. Far East ex Japan equities were impacted by China's ongoing economic concerns. However, increased stimulus measures from Beijing later in the quarter spurred a modest recovery.

In local-currency terms, Japanese small caps fared best, helped by a weak yen. The US and Europe ex UK followed, but both lagged the index slightly. Far East ex Japan was weaker still due to continued China woes and headwinds from higher Treasury yields. The UK fared worst due to the market's limited exposure to technology stocks, although it still posted a positive return.

By sector, energy stocks performed best as oil prices trended higher, particularly at the end of the period. Industrials and consumer discretionary also posted strong gains, helped by the improving economic outlook. On the other side, communication services and utilities underperformed, while real estate brought up the rear; the moderating expectations for interest-rate cuts early in the quarter hurt this rate-sensitive sector.

*The Fund promotes environmental or social characteristics and is categorised as Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.

Performance

12M Rolling Period Return in (EUR) - as at 31 March 2024

Past performance does not predict future returns and future returns are not guaranteed.

	03/23-03/24	03/22-03/23	03/21-03/22	03/20-03/21	03/19-03/20	03/18-03/19	03/17-03/18	03/16-03/17	03/15-03/16	03/14-03/15
Fund (Gross) %	13.66	-5.52	-1.76	66.73	-2.44	14.06	13.09	21.56	-5.62	38.90
Index (Gross) %	17.13	-6.74	4.88	70.06	-20.19	8.37	1.22	26.12	-9.02	33.37

Source: Columbia Threadneedle Investments as at 31/03/2024. Gross of fee fund returns are time-weighted rates of return net of commissions transactions costs and non-reclaimable taxes on dividends interest and capital gains using pricing of investments which is either the last traded price or a bid basis. Cash flows are factored as of the end of the day and exclude entry and exit charges. Index returns include capital gains and assume reinvestment of any income. The index does not include fees or charges and you cannot invest directly in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

Gross of fees, the fund underperformed the benchmark over the quarter.

The relative underperformance was due to unfavourable security selection, particularly in technology, healthcare and financials. However, there were positive contributions from communication services and consumer staples. Sector allocation added value, largely due to the overweight in industrials and underweight in real estate, although the zero weight in energy detracted.

At the stock level, CONMED and Workiva were among the detractors.

CONMED's share price fell due to concerns about demand for the firm's products, as well as its Q4 2023 results, announced in late January, which showed earnings falling short of expectations despite higher-than-forecast revenues. We maintain our conviction in CONMED as it has a wide economic moat and a robust market position. It boasts advantages over smaller players that lack its portfolio breadth, as well as the larger players that focus on a wider variety of end-markets and therefore tend to lack the dedication, specialised customer relationships and innovation that CONMED offers.

Workiva's Q4 2023 revenues and earnings – announced in late February – surpassed expectations, but shares fell as the company downgraded its financial outlook for 2024; the ensuing investor disappointment then carried into March. However, we retain our conviction in the reporting and compliance solutions provider. The company's ESG reporting tools position it well to benefit from increasing ESG regulations and disclosure requirements. Alongside these tools, the company's geographic expansion and innovative platform have potential to act as catalysts for additional growth in market share over the longer term. Workiva also benefits from its dominant market position and flexible and scalable technology, which is reshaping the way organisations report to clients.

On the positive side, CTS Eventim and Freshpet were among the top contributors. Shares of CTS rose steadily over the period before accelerating in late March on the back of a positive reaction to the firm's annual results, which included above-expectation revenues. The company also announced it will increase its dividend payments. We favour CTS for its market-leading position in Europe, and we believe its scale in both the online and offline spaces, distribution power and strong balance sheet will help the company to maintain its competitive position.

Freshpet's shares rallied on the back of well-received Q4 results in February. The pet food company posted higher-than-expected sales and earnings. The strong earnings reinforced our investment thesis in the stock, as it enjoys a dominant market position as the operator of the only manufacturing facility for fresh, refrigerated pet food in North America. We like how the firm's products are sold through a network of company-owned and branded refrigerators, meaning Freshpet does not have to compete for shelf space. These fridges also draw customers, increase category-specific traffic and boost shopper frequency, all at a higher margin.

Activity

We established new positions in Kokusai Electric, Comet and Riken Keiki.

Kokusai Electric manufactures equipment used in the production of semiconductors, including for batch atomic layer deposition (ALD), a process used to precisely deposit thin films of semiconductor material on the base materials of chips. The company continues to invest in research and development to maintain its competitive moat in this growing area. Kokusai is also gaining market share in treatment equipment for improving the quality of the films used in semiconductor manufacturing, which could form an important source of growth as there are tangible benefits for customers that use the same company for batch ALD and film treatment equipment. Kokusai's initial public offering in October last year was one of the biggest in Japan in recent years, and we retain conviction in the stock amid the ongoing enthusiasm for AI-related companies.

Comet is a leading supplier of semiconductor components for medical applications, as well as products used in the aerospace, automotive, energy, semiconductor and security sectors. Comet's superior technologies have led to impressive growth over the past decade; the firm now boasts a dominant position in the production of vacuum capacitors and leading market shares in producing other key components for semiconductors. While we like the firm's diversification, its primary business is based on plasma control – a critical technology in semiconductor design – where Comet also has a leading market position. The company's recent results were encouraging, and it remains well positioned to capitalise on increasing investments in wafer fab equipment.

Riken Keiki manufactures industrial gas detection and measuring equipment. The company is a pioneer in the industry as it was established in 1939 and was Japan's first scientific research institution. Riken Keiki benefits from a robust market position and longstanding reputation for innovation. We believe that its competitive market position is supported by its vital role in safeguarding industrial workers from the various hazards associated with gases. We like the firm for its constant innovation through the independent development and supply of industrial gas detection and alarm equipment, as well as various sensors. The increased focus on workplace safety and the growth of the semiconductor industry form important tailwinds.

Sales include Rémy Cointreau due to concerns over the impact of trade tensions with China. We also exited VAT Group after a period of strong performance.

Outlook

Markets were narrowly led in 2023 as investor sentiment was dominated by optimism around AI. As a result, small-cap stocks are trading at discounts to their larger peers and thereby offering compelling valuations. Looking ahead, we believe the market rally will broaden as evidence of inflation coming under control and interest rates peaking should see investors refocus on fundamentals. We have already started to see signs of this so far this year.

In this environment, we stress the importance of focusing on the quality of the growth opportunity; markets will want to see evidence of near-term profitability and pricing power. Our holdings are typically cash-generative and, in many cases, have business models focused on recurring revenues. In addition, many are supported by powerful secular themes.

We believe that diversification will remain important as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broad opportunity set. Our focus continues to be on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find those quality growth companies across a range of sectors and geographies.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The Fund holds assets which could prove difficult to sell. The Fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

The Fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the Fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the Fund.

An investment style bias can impact a Fund's performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A Fund exhibits a growth style bias relative to its benchmark if the majority of the Fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A Fund's investment style may also change over time.

The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the Fund are set out in the "Risk Factors" section of the prospectus.

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